

Message Text

LIMITED OFFICIAL USE

PAGE 01 LONDON 06432 01 OF 02 201757Z

ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 SP-02 USIA-06 AID-05 EB-08
NSC-05 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00
FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04
SIL-01 PA-01 PRS-01 L-03 H-01 FEAЕ-00 /093 W
-----201805Z 029113 /42

R 201729Z APR 77

FM AMEMBASSY LONDON
TO SECSTATE WASHDC 2866
TREASURY DEPT WASHDC
INFO AMEMBASSY BONN
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION OECD PARIS
USMISSION EC BRUSSELS

LIMITED OFFICIAL USE SECTION 01 OF 02 LONDON 06432

DEPARTMENT PASS FEDERAL RESERVE BOARD

E.O. 11652: N/A
TAGS: EFIN, UK
SUBJECT: UK REACTION TO PRESIDENT CARTER'S RECISION OF
INCOME TAX REBATE AND INVESTMENT CREDIT
PROPOSALS

SUMMARY: UK OFFICIALS AND PRESS APPEAR RELAXED ABOUT THE
PRESIDENT DECISION, ALTHOUGH CHANCELLOR HEALEY WILL SEEK
MORE DETAILS FROM SECRETARY BLUMENTHAL. SOURCES SAY TOPIC
WAS NOT RAISED AT EC FINANCE MINISTERS SESSION. END SUMMAR

/
1. HMTREASURY SOURCE WHO ATTENDED EC FINANCE MINISTERS
COUNCIL REPORTS THERE WAS NO DISCUSSION OF THE US DECISION
TO WITHDRAW INCOME TAX REBATE AND INVESTMENT CREDIT PRO-
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LONDON 06432 01 OF 02 201757Z

POSALS. AFTER THE EC SESSION, CHANCELLOR HEALEY WAS
QUESTIONED ON THE SUBJECT BY THE PRESS. SOURCE SAID THE
CHANCELLOR REPLIED ALONG ROUGHLY THE FOLLOWING LINES: AN
ASSESSMENT OF WHAT IT DOES IS TO REDUCE THE OVERALL STIMU-
LUS OF PRESIDENT CARTER'S ORIGINAL PACKAGE BY 1/3, FROM
ROUGHLY \$30 TO \$20 BILLION DOLLARS AND TO REDUCE THE
STIMULUS THIS YEAR BY 1/2. THIS COULD BE A SIGNIFICANT

CUT IN DEMAND AND IN GNP BUT WHAT IS IMPORTANT IS THE LEVEL THE CUT IS MADE FROM. THE AMERICANS SAY THEY EXPECT THE ECONOMY WILL STILL GROW AT THE LEVELS ENVISAGED WHEN THE ORIGINAL PROPOSALS WERE MADE AND TO MAINTAIN THE TAX REBATE AND INVESTMENT CREDIT WOULD ADD ADDITIONAL STIMULUS NOW THAT WOULD CREATE INFLATION. UNLIKE JOURNALISTS, I DO NOT HAVE TO SHOOT FROM THE HIP AND WILL WAIT TO MAKE MY ASSESSMENT. I PLAN TO DISCUSS IT WITH SECRETARY BLUMENTHAL WHEN I SEE HIM NEXT WEEK.

2. SOURCE SAID THE ABOVE, WHILE NOT VERBATIM, IS CLOSE TO IT. HE DID NOT EXPECT THERE WOULD BE ANY SHARP CRITICISM OR "FLACK" FROM THE UK ALTHOUGH SOME HMTREASURY OFFICIALS SPECULATED IT COULD REDUCE THE IMPACT OF U.S. STATEMENTS TO GERMANY AND JAPAN THAT THEY SHOULD REFLATE THEIR ECONOMIES.

3. A SOURCE AT THE BANK OF ENGLAND TOOK A SIMILAR LINE SAYING HE WAS NOT AWARE OF ANY PROBLEMS BEING RAISED; IT SEEMS LIKE A SOUND DECISION BASED ON THE INDICATORS AVAILABLE. IT WAS TOO BAD A MAJOR PROPOSAL HAD TO BE REVERSED SO QUICKLY: THIS TOO, HOWEVER, COULD BE UNDERSTOOD IF THE PRESIDENT IS SAVING HIS POLITICAL CLOUT FOR THE BATTLE WITH CONGRESS WHICH IS EXPECTED OVER THE ENERGY BILL AND WHICH IS MUCH MORE IMPORTANT. SOURCE ALSO INDICATED RECESSION OF THE PROPOSALS COULD TAKE SOME PRESSURE OFF THE JAPANESE AND GERMANS AT THE SUMMIT BUT THIS SAID THE U.S. IS STILL BEHAVING VERY RESPONSIBLY GIVEN THE SIZE OF ITS BALANCE OF PAYMENTS DEFICIT.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 LONDON 06432 01 OF 02 201757Z

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 LONDON 06432 02 OF 02 201758Z
ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 SP-02 USIA-06 AID-05 EB-08
NSC-05 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00
FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

SIL-01 PA-01 PRS-01 L-03 H-01 FEAЕ-00 /093 W

-----201809Z 029135 /41

R 201729Z APR 77

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 2867

TREASURY DEPT WASHDC

INFO AMEMBASSY BONN

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION OECD PARIS

USMISSION EC BRUSSELS

LIMITED OFFICIAL USE SECTION 02 OF 02 LONDON 06432

4. EDITORIALS IN THE FINANCIAL TIMES ON FRIDAY APRIL 15, AND THE TIMES ON APRIL 16, SAW THE MOVE AS EVIDENCE OF FLEXIBILITY AND THAT FEAR OF A RESURGENCE OF INFLATION IS BEING TAKEN MORE SERIOUSLY. THE FT SPECULATED THAT THE U.S. COULD NOT REASONABLY CONTINUE TO PRESS THE GERMANS AND THE JAPANESE TO EXPOSE THEMSELVES TO INFLATION IF THE U.S. DECIDES IT IS NOW THE NUMBER ONE DANGER. ALL THIS IS TO BE WELCOMED IF IT MEANS THE SUMMIT CAN CONCENTRATE ON LONGER TERM ISSUES AS THE AVOIDANCE OF PROTECTIONISM, THE TRANSFER OF RESOURCES INVOLVED IN THE NORTH-SOUTH DIALOGUE, ENERGY SUPPLIES AND NUCLEAR PROLIFERATION.

5. THE TIMES EDITORIAL SAW THE PRESIDENT AS HAVING DE-
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LONDON 06432 02 OF 02 201758Z

CIDED TO PLAY IT SAFE. IN SHORT TERM THERE WILL BE SOME DISAPPOINTMENT IN THE U.K. AND ELSEWHERE BECAUSE OF A REDUCED U.S. CONTRIBUTION TO HIGHER LEVEL OF WORLD TRADE. IN THE LONGER RUN HOWEVER THE MOST DAMAGING DEVELOPMENT FOR ALL THE WESTERN WORLD WOULD BE AN ACCELERATION OF THE RATE OF INFLATION IN THE UNITED STATES. THAT WOULD BE A SHOULD ALL SUFFER FOR A DECADE AND MORE.

6. THE TIMES EDITORIAL CONCLUDED: AGAINST THIS BACK-GROUND THE DOWNING STREET SUMMIT WILL NEED TO CONCENTRATE ON TWO ASPECTS OF INTERNATIONAL ECONOMIC POLICY. THE FIRST IS HOW, IN THE ABSENCE/OF ANY SUBSTANTIAL GENERAL GROWTH IN WORLD ECONOMIC ACTIVITY, THE FINANCING PROBLEMS OF THE DEFICIT INDUSTRIAL COUNTRIES CAN BE ACCEPTABLY MET AND A SLIDE INTO BEGGAR-MY-NEIGHBOUR PROTECTIONISM AVOIDED THE SECOND IS THE EVEN MORE ACUTE FINANCIAL PROBLEM OF

THOSE PARTS OF THE DEVELOPING WORLD WHICH DO NOT HAVE OIL
AND WHICH HAVE THEREFORE BEEN EFFECTIVELY BANKRUPTED BY
THE RECENT SHIFT IN ENERGY COSTS.

SPIERS

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptoning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GOVERNMENT REACTION, INCOME TAXES, INVESTMENT TAX CREDITS
Control Number: n/a
Copy: SINGLE
Sent Date: 20-Apr-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977LONDON06432
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770137-0542
Format: TEL
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770438/aaaabhb.d tel
Line Count: 175
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 6a8e2aa2-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 02-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2750777
Secure: OPEN
Status: NATIVE
Subject: UK REACTION TO PRESIDENT CARTER'S RECISION OF INCOME TAX REBATE AND INVESTMENT CREDIT PROPOSALS
TAGS: EFIN, UK, US, (CARTER, JIMMY)
To: STATE TRSY
Type: TE
vdkvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/6a8e2aa2-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009